

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ontwa Township-Edwardsburg Police Departm	County Cass
Audit Date 3/31/04	Opinion Date 7/8/04	Date Accountant Report Submitted to State: 9/28/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Siegfried Crandall PC			
Street Address 246 East Kilgore Road	City Kalamazoo	State MI	ZIP 49002-5599
Accountant Signature 		Date 9/29/04	

***Ontwa Township-Edwardsburg Police Department
Cass County, Michigan***

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Year ended March 31, 2004

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INDEPENDENT AUDITORS' REPORT

**Members of the Board
Ontwa Township-Edwardsburg Police Department**

We have audited the accompanying general purpose financial statements of the Ontwa Township-Edwardsburg Police Department as of March 31, 2004, and for the year then ended. These general purpose financial statements are the responsibility of the Police Department's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Ontwa Township-Edwardsburg Police Department as of March 31, 2004, and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

Siegfried Crandall P.C.

July 8, 2004

GENERAL PURPOSE FINANCIAL STATEMENTS

Ontwa Township-Edwardsburg Police Department
COMBINED BALANCE SHEET - Operating Fund and Account Groups

March 31, 2004

	<i>Account groups:</i>			
	<i>Operating Fund</i>	<i>General fixed assets</i>	<i>General long-term debt</i>	<i>Totals (memorandum only)</i>
ASSETS				
Cash	\$ 34,151	\$ -	\$ -	\$ 34,151
Property taxes receivable	281,001	-	-	281,001
Due from governmental units	11,325	-	-	11,325
Prepaid expenses	7,205	-	-	7,205
Fixed assets	-	161,373	-	161,373
Amount to be provided for retirement of general long-term debt	-	-	27,001	27,001
TOTAL ASSETS	\$ 333,682	\$ 161,373	\$ 27,001	\$ 522,056
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 4,490	\$ -	\$ -	\$ 4,490
Accrued expenses	17,703	-	5,296	22,999
Lease obligations	-	-	21,705	21,705
Deferred revenue	19,202	-	-	19,202
Total liabilities	41,395	-	27,001	68,396
Fund equity:				
Investment in fixed assets	-	161,373	-	161,373
Unreserved	292,287	-	-	292,287
Total fund equity	292,287	161,373	-	453,660
TOTAL LIABILITIES AND FUND EQUITY	\$ 333,682	\$ 161,373	\$ 27,001	\$ 522,056

See notes to financial statements

Ontwa Township-Edwardsburg Police Department
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Operating Fund
Year ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Property taxes	\$ 270,829	\$ 286,047	\$ 15,218
Local unit support	212,000	212,000	-
Federal grants	1,425	1,302	(123)
State grants	12,000	11,292	(708)
Charges for services	20,000	18,075	(1,925)
Fines and forfeitures	10,500	21,119	10,619
Interest	3,142	2,521	(621)
Other	6,500	1,111	(5,389)
Total revenues	<u>536,396</u>	<u>553,467</u>	<u>17,071</u>
EXPENDITURES			
Public safety:			
Personnel costs:			
Salaries and wages	313,441	318,350	(4,909)
Health and life insurance	96,997	82,680	14,317
Payroll taxes	33,908	30,678	3,230
Pension	11,000	4,477	6,523
Training and other	5,400	4,248	1,152
Communication	17,761	20,290	(2,529)
Vehicle operation	14,500	11,990	2,510
Insurance	15,104	11,922	3,182
Operating supplies	2,126	6,463	(4,337)
Office costs	2,559	5,348	(2,789)
Legal and audit	6,600	3,509	3,091
Total public safety	519,396	499,955	19,441
Capital outlay	-	3,485	(3,485)
Debt service - principal	16,000	9,569	6,431
Debt service - interest	<u>1,000</u>	<u>1,892</u>	<u>(892)</u>
Total expenditures	<u>536,396</u>	<u>514,901</u>	<u>21,495</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 38,566</u>	<u>\$ 38,566</u>

See notes to financial statements

Ontwa Township-Edwardsburg Police Department

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Operating Fund (Continued)**

Year ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXCESS OF REVENUES OVER EXPENDITURES (from page 5)	\$ -	\$ 38,566	\$ 38,566
FUND BALANCE - BEGINNING OF YEAR	<u>256,721</u>	<u>256,721</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 256,721</u>	<u>\$ 295,287</u>	<u>\$ 38,566</u>

See notes to financial statements

Ontwa Township-Edwardsburg Police Department
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Ontwa Township-Edwardsburg Police Department (Police Department) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Police Department. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Police Department exercises oversight responsibility.

Costs of operations and capital expenditures are primarily supported by property taxes and contractual support from the Township of Ontwa and the Village of Edwardsburg.

b) Basis of presentation:

The accounts of the Police Department are organized on the basis of an operating fund and account groups, each of which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. The fund and account groups are described as follows:

i) Operating fund:

This fund is the general operating fund of the Police Department. It is used to account for all financial resources.

ii) Account groups:

General fixed asset account group - this account group represents the balance of the Police Department's investment in fixed assets used in operations.

General long-term debt account group - this account group represents the balance of general obligation long-term debt, which is not recorded in proprietary funds.

c) Basis of accounting:

Basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements. The Operating Fund is reported using the current financial resources measurement focus and the modified basis of accounting.

Ontwa Township-Edwardsburg Police Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Basis of accounting (continued):

Property taxes are recognized as revenues in the year for which they are levied. All other revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to lay liabilities of the current period. For this purpose, the Police Department considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

d) Budgets and budgetary accounting:

The Police Department follows the procedures in establishing the budgetary data reflected in the financial statements in accordance with the Uniform Budgeting and Accounting Act (Act No. 621, Public Acts of 1978), as prescribed by the State of Michigan. The budget is adopted at the activity level and is consistent with generally accepted accounting principles.

NOTE 2 - CASH:

Cash at March 31, 2004, includes deposits with banks of \$33,851. Of the corresponding bank balance of \$35,392, \$8,153 is covered by federal depository insurance, and, \$27,239 is uninsured.

NOTE 3 - PROPERTY TAXES:

Property taxes are recognized in the year for which taxes have been levied and become available. The Police Department property tax is levied on each December 1 on the taxable valuation of property (as defined by State statutes) located in the Township of Ontwa as of December 31 of the preceding year. The billings are due on February 14, with a final collection date of February 29, before they are added to the County delinquent tax roll. The Police Department considers property taxes levied December 1, 2003, to be revenues of the year ended March 31, 2004.

Ontwa Township-Edwardsburg Police Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - FIXED ASSETS:

The following is a summary of fixed asset transactions:

	<u>Year ended March 31, 2004</u>			
	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Vehicles	\$ 44,219	\$ -	\$ -	\$ 44,219
Leased vehicles	18,877	18,128	-	37,005
Equipment	70,928	1,859	-	72,787
Furniture and fixtures	<u>7,362</u>	<u>-</u>	<u>-</u>	<u>7,362</u>
	<u>\$141,386</u>	<u>\$19,987</u>	<u>\$ -</u>	<u>\$161,373</u>

Increases of \$16,502 were attributable to increase in lease obligations seller financing, which did not result in the recognition of other financing sources and an equal amount of capital outlays in the accompanying statement of revenues, expenditures and changes in fund balance.

NOTE 5 - LONG-TERM DEBT:

At March 31, 2004, long-term debt is comprised of the following:

<i>Lease obligations:</i>	
\$17,776 Vehicle lease; quarterly installments of \$2,469 through September 2004; interest at 13.89%	\$ 7,208
\$16,502 Vehicle lease; quarterly installments of \$2,136 through January 2006; interest at 3.22%	<u>14,497</u>
	21,705
Accumulated compensated absences	<u>5,296</u>
Total long-term debt	<u>\$27,001</u>

The following is a summary of long-term debt transactions:

Balance, beginning of year	\$ 20,422
Change in compensated absences	(354)
Borrowings	16,502
Repayments	<u>(9,569)</u>
Balance, end of year	<u>\$ 27,001</u>

Ontwa Township-Edwardsburg Police Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - LONG-TERM DEBT (Continued):

The annual requirements to amortize all debt outstanding (except for accumulated compensated absences), as of March 31, 2004, including interest of \$668 are as follows:

Year ending <u>March 31,</u>	
2005	\$15,959
2006	<u>6,414</u>
Total	<u>\$22,373</u>

NOTE 6 - PENSION PLAN:

The Police Department maintains a defined contribution pension for all full-time employees. Pension expense for the year ended March 31, 2004, was 4,477. The Police Department is neither a trustee nor administrator of the plan and, accordingly, the plan is not includable in these financial statements.

NOTE 7 - RISK MANAGEMENT:

The Police Department is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability, building contents, workers' compensation, and casualty are managed through purchased commercial insurance.

NOTE 8 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. As shown in the accompanying financial statements, the Police Department incurred, on an activity basis, expenditures in excess of amounts budgeted. Amounts in excess of the budget were funded from available fund balance.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL RELATED
MATTERS NOTED IN A FINANCIAL STATEMENT AUDIT**

**Members of the Board
Ontwa Township-Edwardsburg Police Department
Cass County, Michigan**

In planning and performing our audit of the general purpose financial statements of the Ontwa Township-Edwardsburg Police Department for the year ended March 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Police Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the general purpose financial statements. These matters are set forth in the accompanying schedule.

This report is intended solely for the information and use of the Board of the Police Department and the Michigan Department of Treasury and is not intended to be, and should not be, used by anyone other than these specified parties.

Siegfried Crandall P.C.

July 8, 2004

Ontwa Township-Edwardsburg Police Department
COMMENTS AND RECOMMENDATIONS

Recordkeeping

Policies and procedures to assure the physical safekeeping of financial records were not effective.

- Certain bank statements and vendor invoices could not be located. Original documents such as these are kept unbound in a “month” folder, which is handled by several individuals. There is no process to account for the completeness of the information that is placed in the folder.

Policies and procedures to assure the establishment and maintenance of detail records that support amounts reported as fixed assets were not effective.

- An inventory of fixed assets used in operations has not been maintained.

Budget amendments

Policies and procedures to assure compliance with state statutes governing the budget development and monitoring process were not effective.

- The budget was not amended to reflect the actual available beginning of year fund balance. The budget was not amended for the impact of spending overruns.

Pension contribution

Policies and procedures to assure compliance with the pension provisions of the employment contract were not effective.

- The employment contract calls for matching employer contributions to be made as soon as possible. For the years ended March 31, 2004 and 2002, certain employer match contributions have not yet been made.
- The employment contract limits the employer match amount to \$1,500. For the year ended March 31, 2004, the employer match exceeded the limit for one individual.

Classification of payments to employees

Policies and procedures to assure W-2 wages include all compensation payments were not effective.

- Certain payments to employees (in lieu of employer-paid health insurance premiums, care of animals, or custodial services) that are considered compensation under IRS rules were excluded from taxable wages.

Ontwa Township-Edwardsburg Police Department
COMMENTS AND RECOMMENDATIONS (Continued)

Employment agreements

Policies and procedures to assure that written employment agreements or memorandums of understanding for the Police Chief and the bookkeeper are in place were not effective.

- Interim period and year-end responsibilities of the bookkeeper are not in writing.
- Terms of the Police Chief's compensation are subject to interpretation.

Financial reporting

Policies and procedures to assure that the accounting package reports revenue and expenditure activity of the current period were not effective.

- The Police Department follows the practice of closing revenue and expenditure account histories after the annual audit is done. As the audits for 2003 and 2002 were not done timely, revenue and expenditure account balances as of March 31, 2004, included three years of activity. We recommend that revenue and expense balances be closed into fund balance annually, regardless of when an audit is scheduled.

Property tax revenue

Policies and procedures to assure that property tax revenues are reported in the proper accounting period were not effective.

- The Police Department has received conflicting advice regarding when to recognize property tax revenues (and the corresponding asset). The guidance that is applicable to all units of government, including special districts and authorities, is as follows. Property taxes may not be recognized as revenue before the period for which it is levied. Also, property taxes must be due within the fiscal year to qualify as revenue of that period. Because the levy date (December 1) and due date (February 15) fall within the fiscal year, property taxes levied in December are revenues of the year ending March 31. To the extent property taxes are received within 60 days after the year end, such amounts are reported as revenue in the year levied.

Compensated absences

Policies and procedures to assure that there is adequate monitoring of compensated absences earned and taken by employees are not in place.

- The Police Chief prepares and maintains the records surrounding compensated absences for all employees, including the Chief. The Board should implement some form of periodic monitoring of the processing and reporting of available unpaid compensation hours.

Ontwa Township-Edwardsburg Police Department
COMMENTS AND RECOMMENDATIONS (Continued)

Gasoline usage

Policies and procedures to assure that there is adequate monitoring of gasoline usage is not in place.

Individual vehicle gasoline purchases are not compared against miles driven. The Board should implement some form of periodic monitoring of such data.